

CONFORMED COPY

CREDIT NUMBER 2835 MAU

Development Credit Agreement

(Urban Infrastructure and Pilot Decentralization Project)

between

ISLAMIC REPUBLIC OF MAURITANIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 16, 1996

CREDIT NUMBER 2835 MAU

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 16, 1996, between ISLAMIC REPUBLIC OF MAURITANIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

WHEREAS (B) the Association has received a letter, dated August 7, 1995 from the Borrower, describing a program of actions, objectives and policies designed to promote the development of Municipalities on the territory of the Borrower, the Declaration de politique municipale, (the Program) and declaring the Borrower's commitment to the execution of the Program;

WHEREAS (C) the Project will be carried out by Agence Mauritanienne d'Execution des Travaux d'Interet Public pour l'Emploi, (AMEXTIPE), with the Borrower's assistance and, as part of such assistance, the Borrower will make available to AMEXTIPE the proceeds of the Credit as provided in this Agreement;

WHEREAS (D) the Borrower intends to obtain from donors grants, in an aggregate amount equivalent to six million four

hundred thousand dollars (\$6,400,000) to assist in financing part of the Project on the terms and conditions set forth in grant agreements to be entered into between the Borrower and each donor, respectively, (the Grant Agreements); and

WHEREAS the Association has agreed on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and AMEXTIPE;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AMEXTIPE" means Agence Mauritanienne d'Execution des Travaux d'Interet Public pour l'Emploi, an entity established in accordance with the Law no. 64.098 dated June 9, 1964 of the Borrower;

(b) "By-laws" means the internal regulations of AMEXTIPE;

(c) "Convention" means the Agreement, signed on December 9, 1992, between the Borrower and AMEXTIPE, as amended pursuant to Section 3.01 (b) of this Agreement and as the same may be amended from time to time, and such term includes the Manual of Procedures and all annexes, schedules and attachments thereto and to the Convention;

(d) "DCL" means Direction chargee des Collectivites Locales, a unit in the MIPT (as hereafter defined), monitoring the Municipalities in the territory of the Borrower, as established by Decree 90/94 of the Borrower, dated October 23, 1994;

(e) "DTCC" means Decentralization Technical Coordination Committee, Comite Technique de Coordination de la Decentralisation, to be established by the Borrower under the Project;

(f) "Fiscal year" means the fiscal year of AMEXTIPE;

(g) "Grant" means a grant made or proposed to be made by AMEXTIPE on behalf of the Borrower to a Municipality for the

purpose of paying an Implementing Enterprise for works carried out in respect of a Sub-project under Part A of the Project;

(h) "IMDC" means Inter-Ministerial Decentralization Committee, Comite Interministeriel de Decentralisation, to be established by the Borrower under the Project;

(i) "Implementing Enterprise" means any entity engaged by AMEXTIPE on behalf of a Municipality to execute a Sub-project for the benefit of a Municipality;

(j) "Inventaires" means the inventory of municipal infrastructure assets;

(k) "MA" means Association des Maires, the Mayors Association, an association established according to Law No. 64.098 of June 9, 1964 of the Borrower;

(l) "Manual of Procedures" means the Manuel de Procedures used by AMEXTIPE to govern its operations with third parties, which Manuel is annexed to the Convention, as the same may be amended from time to time by AMEXTIPE, and such term includes all annexes, schedules and attachments supplemental to the Manual of Procedures;

(m) "MC" means Municipal Contract, Contrat Municipal, concluded between a Municipality and DCL;

(n) "MET" means Ministere de l'Equipement, et du Transport, the Borrower's Ministry of Public Works and Transport;

(o) "MF" means Ministere des Finances, the Borrower's Ministry of Finance;

(p) "MIPT" means Ministere de l'Interieur, des Postes et Telecommunications, the Borrower's Ministry of Interior, Post and Telecommunications;

(q) "MP" means the Borrower's Ministere du Plan, the Ministry of Planning;

(r) "Municipality" means a collectivite territoriale, a local community within the territory of the Borrower for the benefit of which a Sub-project is to be executed or is being executed, as the case may be, under the Project;

(s) "N&N" means Nouakchott and Nouadhibou, two Municipalities within the territory of the Borrower;

(t) "PIP" means municipal priority investment programs, Programmes Urbains de Reference;

(u) "Project Account" means the account referred to in Section 3.02 (a) of this Agreement;

(v) "Project Agreement" means the Agreement between the Association and AMEXTIPE of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(w) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated December 21, 1995 and January 14, 1996, respectively, between the Association and the Borrower;

(x) "Regional Development Fund" means the Fund established by the Borrower pursuant to the Borrower's annual budget law, for the first time for the fiscal year 1994;

(y) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(z) "Statuts" means the Articles of Agreement of AMEXTIPE;

(aa) "Sub-project Agreement" means an agreement between AMEXTIPE and an Implementing Enterprise in relation to the execution of a Sub-project;

(bb) "Sub-project" means a specific development project under Part A of the Project, which complies with the eligibility criteria specified in Schedule 2 to the Project Agreement, to be financed out of the proceeds of the Credit; and

(cc) "UM" or "Ouguiya" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to nine million seven hundred thousand Special Drawing Rights (SDR 9,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement (other than Part A thereof) and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by AMEXTIPE from a Grant to meet the reasonable cost of works required for a Sub-project and in respect of which withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Ouguiya a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next

payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1, commencing May 1, 2006 and ending November 1, 2035. Each installment to and including the installment payable on November 1, 2015 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its obligations under this Agreement:

(i) shall cause AMEXTIPE to carry out the Project with due

diligence and efficiency, in accordance with the provisions of the Project Agreement and the Convention, and perform all the obligations of AMEXTIPE therein set forth; and

(ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable AMEXTIPE to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to AMEXTIPE under the Convention, which shall be amended to provide terms and conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Convention in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Convention or any provision thereof.

Section 3.02. The Borrower shall:

(a) cause AMEXTIPE to open and, until the completion of the Project, maintain in a commercial bank acceptable to the Association, and on terms and conditions acceptable to the Association, an account in UM;

(b) deposit into the Project Account: (i) an initial amount of \$250,000 equivalent; and (ii) thereafter, amounts needed for the carrying out of the Project according to a budget plan and timetable agreed to during the annual reviews referred to in paragraph (3) of Schedule (3) to this Agreement;

(c) ensure that contributions by Municipalities with respect to Sub-projects are deposited into the Project Account in accordance with paragraph (3) (c) of Schedule 2 to the Project Agreement; and

(d) ensure that funds deposited into the Project Account in accordance with paragraph (b) and (c) above shall be used exclusively to finance the Borrower's contribution for expenditures under the Project other than those financed from the proceeds of the Credit;

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit, shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.04. The Association and the Borrower hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by AMEXTIPE.

Section 3.05. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, a plan designed to ensure the continued achievement of the Project's objectives; and furnish such plan to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association;

(b) afford the Association a reasonable opportunity to

exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than five months after the end of each annual audit period, the report of such audit by such auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditures submitted during such audit periods, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) as a result of events which have occurred after the date of this Agreement, a situation has arisen which shall make it improbable that AMEXTIPE or the Borrower will be able to perform their obligations under the Convention;

(c) the Convention, has been amended, suspended, abrogated, or waived so as to affect materially and adversely the ability of AMEXTIPE to perform any of its obligations under the Convention, or the Project Agreement, as the case may be;

(d) the Borrower or any other authority having jurisdiction have taken any action for the dissolution or disestablishment of AMEXTIPE, or for the suspension of its operations;

(e) AMEXTIPE shall have failed to perform any of its obligations under the Project Agreement;

(f) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Association to the Borrower, and

(b) any event specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01(b) of the General Conditions:

(a) the Convention, as amended in accordance with Section 3.01 (b) of this Agreement, has been executed on behalf of the Borrower and AMEXTIPE;

(b) AMEXTIPE has submitted to the Association and obtained approval for a program of Sub-projects to be carried out under the Project during the first six months following the Effective Date;

(c) the Borrower has deposited into the Project Account the initial deposit referred to in Section 3.02 (b) (i) of this Agreement;

(d) the MC for the city of Nouakchott has been signed by the city of Nouakchott and DCL; and the PIP for the city of

Nouakchott has been adopted by the municipal council of the city of Nouakchott; and

(e) the auditors referred to in Section 4.01 (b) of this Agreement have been appointed for a period of three years in accordance with the provisions of Section II of Schedule 1 to the Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, that:

(a) the Project Agreement has been duly authorized and signed by AMEXTIPE and is legally binding upon AMEXTIPE in accordance with its terms; and

(b) the Convention, as amended, continues to be valid and binding in accordance with its terms.

Section 6.03. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Ministre du Plan of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministere du Plan
BP 238
Nouakchott
Mauritania

Cable address:

MP
Nouakchott

Telex:

540 MTN

For the Association:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:

INDEVAS
Washington, DC

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF MAURITANIA

By /s/ Amadou Diaw

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Grants under Part A of the Project	4,900,000	100% of amounts disbursed by AMEXTIPE
(2) Consultants services	2,000,000	100%
(3) Goods and vehicles	400,000	100%
(4) Operating costs of AMEXTIPE for the Project	800,000	85%
(5) Refunding of Project Preparation Advance	350,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(6) Unallocated	750,000	
TOTAL	9,700,000 =====	

2. For the purposes of this Schedule, "operating costs of AMEXTIPE for the Project" means the costs incurred by AMEXTIPE under the implementation of the Project on account of salaries and allowances, operation and maintenance of vehicles and equipment, office rent, supplies and services.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) expenditures under Category (1) in respect of a Grant for a Sub-project unless the Sub-project has been approved by the Association pursuant to paragraph 2 of Schedule 2 to the Project Agreement.

4. It is understood that the percentages in the table in paragraph 1 of this Schedule have been calculated on the basis of the provisions in Ordonnance No 80-323 of December 10, 1980, of the laws of the Borrower, which exempt the goods and works to be financed from taxes and customs duties levied by the Borrower. If any change is made to said Ordonnances which has

the effect of levying taxes or customs duties on such goods or works, the percentages referred to above shall be decreased in accordance with the provisions of Section 5.08 of the General Conditions.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (a) for works under contracts not exceeding \$250,000 equivalent; (b) for goods, under contracts not exceeding \$150,000 equivalent; and (c) for services: (i) for firms under contracts not exceeding \$100,000, and (ii) for individuals under contracts not exceeding \$50,000 equivalent, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to reduce poverty in urban areas, develop the private urban construction sector, implement pilot decentralization activities and improve public sector management through: (a) temporary employment creation by building or rehabilitating, as the case may be, urban infrastructure assets; and (b) provision of the necessary skills to Municipalities to enable them to manage these assets, and strengthening of MIPT for the efficient exercise of its tutorship role.

The Project consists of the following Parts, subject to such modifications as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Public Works

Provision of Grants for the carrying out of Sub-projects for:

1. rehabilitation works including: roads, street drainage, common workshops for local artisans, or works for the protection against sand encroachment;
2. the construction of primary school classrooms;
3. social sector works including: construction or rehabilitation, as the case may be, of latrines, enclosures for primary schools, health centers, meeting rooms for women, day care centers, and youth centers;
4. income generating works, including: the construction of markets, slaughterhouses, bus-truck terminals, parking lots; and
5. works designed to improve tax administration, including street-lots numbering and construction or rehabilitation, as the case may be, of tax offices.

Part B: Capacity Building

1. At the Municipality level:

- (a) strengthening infrastructure planning and urban space management through the preparation of: (i) Inventaires, and (ii) rolling PIPs;
- (b) introducing management reform through: (i) the carrying out of management audits of the Municipalities; (ii) the adoption by the Municipalities of reform programs based on the audits referred to under (i) of this subsection, incorporated in a MC; and (iii) the establishment of continuous performance monitoring of the implementation of MCs and PIPs by the Municipalities, based on agreed indicators;

(c) training of staff of Municipalities in the areas of: (i) financial management; (ii) public services management; and (iii) personnel management; and

(d) training of officials of Municipalities in the areas of: (i) municipal planning; (ii) use and management of Inventaires; (iii) preparation and updating of PIPs; and (iv) drafting of municipal regulations.

2. At the national level:

(a) strengthening of DCL through: (i) selection and training of qualified staff; (ii) adoption of a manual of procedures; (iii) establishment of a data bank for Inventaires; and (iv) provision of data processing equipment and vehicles;

(b) strengthening of MA and DTCC through the provision of equipment and consultancy services; and

(c) reforming the municipal legal and regulatory framework through: (i) establishment of clear responsibilities between Municipalities and the Government; and (ii) revision of the municipal tax system, including government-municipal transfers.

3. Training and Consultant services including:

(a) Provision of training to improve the capacity of:

(i) local governments to identify and evaluate the feasibility of small-scale public works projects, adherence to procurement procedures for such projects and to monitor their condition and economic effectiveness;

(ii) domestic consultants to prepare sound feasibility studies and technical proposals for small-scale public works projects, and to monitor their condition and economic effectiveness; and

(iii) domestic contractors in management, work organization, cost awareness and other skills necessary for efficient implementation of small-scale public works projects;

(b) preparation of national regulations permitting municipalities to delegate authority for the execution of projects to independent consultants and contractors for the benefit of a municipality; and

(c) carrying out of a survey of the use of the Regional Development Fund and its effectiveness in promoting decentralization.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Implementation Schedule

1. The Borrower shall:

(a) maintain, until the completion of the Project DCL, within MIPT, headed by a qualified and experienced director, acceptable to the Association, and staffed with qualified and experienced officers in adequate numbers;

(b) establish, until December 31, 1996: (i) DTCC, chaired by

the director of planning of MP and comprising representatives of MF, MET, the Mayors' Association, and DCL; and (ii) IMDC, chaired by the Minister in charge of Interior, and comprising, as permanent members, the Ministers of Planning, Finance, and Equipment;

(c) through DCL: (i) establish and yearly update Inventaires in the municipal data bank of DCL; (ii) establish PIPs for Municipalities following at least one public meeting; (iii) sign MCs between Municipalities and DCL, designed to stimulate and enhance municipal management, and publish such MCs according to procedures acceptable to the Association; and (iv) ensure that all necessary action is taken to implement the provisions of said MCs and such PIPs.

(d) carry out yearly management and technical audits, in accordance with terms of reference acceptable to the Association, of the performance of the respective parties to PIPs and MCs, and shall publish the findings of such audits according to procedures acceptable to the Association; and

(e) carry out the training activities, studies and survey referred to in Part B of Schedule 2 to this Agreement in accordance with a timetable acceptable to the Association.

2. Sub-projects, prepared by Municipalities according to eligibility criteria specified in Schedule 2 to the Project Agreement, shall be submitted semiannually through AMEXTIPE for approval to the Borrower and to the Association.

3. (a) The Borrower, AMEXTIPE and the Association shall undertake a joint review of the Project during the third calendar quarter of every year in which the Municipalities shall be invited to participate. This review shall cover, inter alia: (i) the progress made in the execution of the Project, its cost and the benefits derived and to be derived from it; (ii) AMEXTIPE's management, notably, its adherence to its Statuts, its By-laws, and its Manual of Procedures; (iii) the performance by AMEXTIPE and the Borrower of their respective obligations under the Convention; (iv) the performance by AMEXTIPE and Implementing Enterprises of their respective obligations under Sub-project Agreements; (v) an evaluation of the adequacy of contributions to a Sub-project, including the percentage of financing and AMEXTIPE's fee structure; (vi) evaluation of the scope of Sub-projects implemented under the Project and feasibility of their geographic extension; and (vii) analysis of lists of Sub-projects submitted in accordance with the procedure stipulated in paragraph (2) of this Schedule. The overall performance of AMEXTIPE shall be measured in terms of the performance monitoring indicators set forth in the Manual of Procedures.

(b) Not later than one month prior to each such review, the Borrower shall, jointly with AMEXTIPE, furnish to the Association, for its review and comments, and in such detail as the Association shall reasonably request, a report on the progress and status of the Project, covering the points to be reviewed, and a plan of operation for the forthcoming year.

(c) Following each such review, the Borrower shall act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement such other measures as may have been agreed upon between the Borrower and the Association in furtherance of the objectives of the Project.

4. The Borrower and AMEXTIPE shall, not later than September 30, 1998 or such other date as the Borrower and the Association shall agree upon, carry out with the Association, a mid-term review to which Municipalities shall be invited. Such mid-term review shall cover progress of the Project, as stipulated under

subparagraph 3 (a) of this Schedule, with added emphasis on: (a) options to include new categories of Sub-projects in order to better meet the objectives of the Project, and: (b) the impact of the Project on: (i) the environment; (ii) the creation of a skilled work force; (iii) alleviation of social needs and (iv) progress of the decentralization and municipal development reform program. The Borrower and AMEXTIPE shall, with respect to the mid-term review, take the actions described in subparagraph 3 (b) and (c) of this Schedule.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) to (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to UM 100,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to UM 75,000,000 (Ouguiya 75 million) until the aggregate amount of withdrawals from the Credit Account plus the total amount of outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the

Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories and in the respective equivalent amounts as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the

Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

